

This record is a partial extract of the original cable. The full text of the original cable is not available.

011622Z Sep 05

UNCLAS SECTION 01 OF 03 LAGOS 001376

SIPDIS

SENSITIVE

DOE FOR DAS JBRODMAN AND CGAYE
TREASURY FOR ASEVERENS AND SRENANDER
DOC FOR KBURRESS
STATE PASS TRANSPORTATION MARAD
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ
STATE PASS EX-IM FOR JRICHTER AND KVRANICH
STATE PASS OPIC FOR ZHAN AND JEDWARDS
STATE PASS TDA FOR NCABOT AND BTERNET

E.O. 12958: N/A

TAGS: [EPET](#) [ELAB](#) [EPET](#) [KDEM](#) [PGOV](#) [NI](#)

SUBJECT: NIGERIA: FUEL PRICE HIKE AND NATIONAL STRIKE UPDATE

REF: LAGOS 1350

Summary

1. (SBU) On August 26, the Petroleum Products Regulatory Agency (PPRA), citing increased international oil prices, raised gas prices from 50 Naira/liter to 65 Naira/liter. The Nigerian National Petroleum Corporation (NNPC) requested the increase, claiming it could no longer shoulder the financial burden of importing products at high international prices but selling them domestically at lower subsidized prices. The PPRA claims \$1 billion has been spent in 2005 subsidizing domestic fuel consumption. Civil society immediately protested the price increase. The Nigerian Labor Congress, (NLC), Trade Union Congress (TUC), and other civil society groups are meeting to decide on holding a national strike. However, weakened by half-hearted adherence to strikes over the last year, the NLC may no longer have the power to launch a hard-hitting strike.

2. (SBU) The PPRA wants to eliminate all subsidies, which would mean a price hike to approximately 72 Naira/liter for gas. However, given today's high oil prices, a subsidy in the 5-7 Naira range would be a palatable compromise. However, if a subsidy continues, the PPRA Executive Secretary advocates a "stabilization fund", rather than allow NNPC to continue the non-transparent process of "dipping its hand" into the national Treasury to cover financial shortfalls caused by the subsidization. End Summary.

PPRA Raises Gas Price to 65N/Liter to Keep Pace with Oil Prices; NNPC Says it Cannot Finance Growing Subsidies

3. (U) On August 26, the Petroleum Products Regulatory Agency (PPRA) raised the price of gasoline (termed premium motor spirit in Nigeria) from 50 Naira/liter to 65 Naira/liter -- 7 Naira short of 72 Naira/liter price increase announced in the press earlier. The GON directed that prices of diesel and kerosene remain at 70 Naira/liter. NNPC requested the price increase, on the grounds that it can no longer afford to import, supply, and distribute at the lower subsidized domestic prices. GON officials claim NNPC spends about 300 million Naira daily (about \$220,000 USD) financing the 30 million liters of petroleum consumed in Nigeria.

Filling Station and Transport Costs Rise, Gas Queues Initially Result; GON Warns Against Price Gouging

4. (U) In Lagos, most filling stations quickly adjusted to reflect the price change; motorists griped but lined up to buy at the new price. Queues appeared when the price was initially announced, but have disappeared as people grudgingly adjust to the change. Commuter costs on public transport jumped immediately. Nonetheless, the GON is acting to prevent "price gouging." On August 29, the GON warned petroleum marketers to refrain from selling above the approved price of 65 Naira/liter for gasoline and 70 Naira/liter for diesel and kerosene. The Department of Petroleum Resources (DPR) has been directed to ensure compliance with the new price regime. (Comment: Since the new price became effective on August 26, marketers outside Lagos and some states in the southwest have been selling gas for 67 to 72 Naira/liter. End comment.)

NLC, TUC, Meeting to Discuss Strike, Plan to Disregard Nat'l. Strike Ban

15. (SBU) Organized civil society, led by the Nigerian Labor Congress (NLC), swiftly critiqued the price increase. The populist National Assembly joined cause, yet again refusing to support the Executive on the need to revise prices upwards. The Nigerian Labor Congress (NLC) is holding a meeting August 31 to decide its course of action. It has already directed 36 states councils and 29 affiliate unions to begin mobilizing for a strike. NLC leaders told us that the labor law passed in March, inter alia, prevents the NLC from calling a fuel strike, will not be an issue in their discussions. The NLC has decided to ignore the law. Nevertheless, the NLC is encouraged by the initial conciliatory response from NNPC to the NLC's overtures. The NLC is unlikely to take a final decision to strike without further discussion with NNPC. The NLC will attempt to involve the President and National Assembly in discussions, so a lasting decision can be made.

16. (U) The Trade Union Congress of Nigeria (TUC), the umbrella union for senior staff workers, is scheduled to meet September 1 to decide steps to force a price reversal. Local newspapers report the TUC had issued a 10-day ultimatum (ending September 6), to the GON to revert to the old pump price of petroleum products, or face mass protest from an angry TUC-led public.

Petroleum Unions Engaged in Negotiations

17. (SBU) Members of NUPENG and PENGASSAN, the junior and senior staff petroleum workers' unions, are currently discussing the price hike with NNPC. Union members are concerned about transparency in fuel pricing decisions, and adherence to due process procedures when adjusting prices. The two unions recently signed a communique outlining their arguments. On Wednesday, August 31, the unions plan to release another communique advocating better-defined structures for fuel pricing matters. Negotiations are progressing, and union leaders feel that a decision to strike will not be taken soon.

Civil Society Protests Against Fuel Price Hike Increasingly Shrill

18. (SBU) Despite these private remarks pointing to moderation, the tenor of press comments by some civil society groups are growing shrill. In an August 30 press report, the NGO Environmental Rights Action/Friends of the Earth called the price hike, "wicked and inhuman," saying the Federal Government is "implementing the agenda of the International Monetary Fund and the World Bank, who want nothing for Nigeria but poverty and hardship." The Conference of Nigerian Political Parties, an amalgam of opposition parties, directed its members to prepare for mass action.

PPRA Questions Sustainability of a Strike

19. (SBU) In an August 25 meeting with the Executive Secretary of the Petroleum Products Pricing Regulatory

SIPDIS

Agency (PPRA) Dr. Oluwale Oluleye, he thought the NLC would strike to test the GON's resolve regarding fuel prices. He pointed out that if the NLC leadership did not strike, "their constituency will throw them out." However, he questioned if the strike would be sustainable.

Conversation with Petroleum Products Pricing Regulatory Agency Highlights Role in Deregulation of Downstream Sector

10. (SBU) Oluleye explained the PPRA's mandate in the deregulation of Nigeria's downstream petroleum market. PPRA is responsible for controlling prices while the GON gradually phases out subsidies. PPRA also serves as an advocate for deregulation within the GON, and to the Nigerian public and press, making the (often unpopular) case that deregulation serves the long-term needs of the Nigerian people. PPRA, an independent agency, reports directly to the President.

Eliminate Fuel Subsidies, or Establish Stabilization Fund; GON Spent nearly \$1 Billion on 2005 Subsidies

11. (SBU) Dr. Oluleye told us PPRA advocates for full cost recovery and the elimination of all subsidies in the downstream market. However, if the GON decides full market pricing is too much for the public to bear, Dr. Oluleye advocates a stabilization fund to finance the subsidy. The GON has never budgeted a fuel subsidy. Rather, NNPC simply "dips its hand" into the national Treasury to cover the subsidy. Dr. Oluleye stated the GON spent about 124 billion

Naira, or nearly 1 billion USD, to subsidize fuel products during the first 8 months of 2005. Dr. Oluleye explained that if a subsidy were budgeted, the GON could make a policy decision to subsidize until the fund was depleted; however, the fund at least would have a transparent, well-understood limit.

PPRA: 72 Naira/Liter is Current Goal;
5-7 Naira Subsidy May be an Acceptable Compromise

12. (SBU) Dr. Oluleye explained the PPRA would currently like to set the fuel price at N72/liter, to allow for full cost recovery. However, given the current quagmire over fuel prices, Dr. Oluleye indicated a 5-7 Naira/liter subsidy would be a reasonable compromise.

PPRA Unlikely to Get Full Cost Recovery Now,
but Confident in Long-Term Strategy

13. (SBU) Dr. Oluleye has reason to be confident PPRA will have some success in closing the subsidy gap. He recounted that from 2003 to January 2004, the GON managed to eliminate the subsidy; consequently petroleum products were readily available in the market. However, in May 2004, international crude prices started their relentless climb. PPRA raised fuel prices significantly in November 2004, but has been unable to keep pace with accelerating world prices. As for the current impasse, Dr. Oluleye admitted PPRA is unlikely to get to full cost recovery in the current row.

Comment

14. The rise in international prices doubtless triggered the GON move to raise domestic prices. Unfortunately, the GON will be chasing a moving goal post if international prices continue to climb. The political will to deregulate is there, but so is the political reality of a grumbling public, and a not so good underlying economy. In this environment, the GON will be hard pressed to achieve complete deregulation. The current increase may be as much as the public will bear without igniting a backlash.

15. (U) This cable was cleared by Embassy Abuja.

BROWNE#